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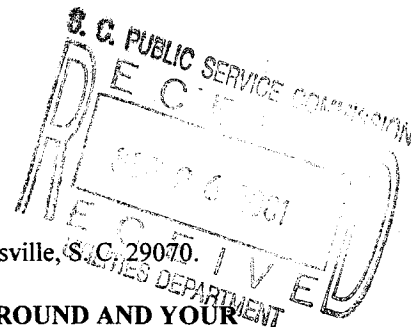
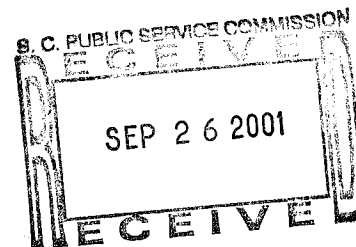
TESTIMONY OF D. JOE MAREADY

FOR

DOWD WATER SYSTEMS, INC.

DOCKET NO. 2001-181-W

**IN RE: EMERALD SHORES SUBDIVISION
ISLE OF PINES SUBDIVISION**



1. Q. WOULD YOU PLEASE STATE YOUR NAME AND ADDRESS?

2. A. My name is D. Joe Maready. I reside at Route #8, P. O. Box 308-S, Leesville, S.C. 29070.

3. Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR

4. EXPERIENCE?

5. A. I received a B. S. Degree in General Business from the University of North Carolina, Chapel Hill,
6. North Carolina, and have taken over thirty semester hours in Accounting at the University of South
7. Carolina. I was employed with the Public Service Commission of South Carolina for almost
8. twenty-nine years. During that time, I testified in excess of fifty (50) rate cases involving electric,
9. gas, telephone, water, sewer, radio common carriers, general commodities, bus and moving and
10. storage companies. After my retirement in July 1999, I began working with Public Storage
11. Company where I work as an Assistant Property Manager and occasionally substitute as Property
12. Manager at the other nine (9) properties throughout the Metropolitan Columbia area. I terminated
13. my employment there effective October 1.

14. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING EMERALD SHORES

15. AND ISLE OF PINES?

16. A. I was contracted by the owner of Dowd Water Systems to present the financial statements for her
17. two (2) utilities.

18. Q. PLEASE EXPLAIN.

19. A. Attached to my testimony are four (4) exhibits:

RETURN DATE: _____
SERVICE: OK

20. Exhibit A: Emerald Shores, Operating Margins

21. Exhibit A-1: Emerald Shores, Explanation of Accounting and Proforma Adjustments

22. Exhibit B: Isle of Pines, Operating Margins

23. Exhibit B-1: Isle of Pines, Explanation of Accounting and Proforma Adjustments.

24. The test period used is the twelve months ending December 31, 2000. Column (1) of Exhibit A

25. (Emerald Shores) shows the "per books" figures for the test period. The current monthly charges

26. of \$20.00 per month for seventeen (17) customers produce revenues of \$4,080 for the year. After

27. operating expenses of \$5,250, the utility lost \$1,170 for an operating loss of (28.68%). After

28. proposed expenses for known and measurable changes, operating loss increases to (107.21%).

29. The company is requesting a monthly charge of \$62.00 per month for unlimited usage of water.

30. The increase of \$42.00 per month on seventeen (17) customers produce a proposed increase of

31. \$8,568 and an operating margin of 26.26%.

32. The proposed adjustments are explained on Exhibit A-1 for Emerald Shores but I will briefly

33. summarize them.

34. Adjustment No. (1). The company contracted this year with a certified operator to

35. check the system daily at a cost of \$5,165. All other expenses related to the other

36. operator are deleted since he will furnish all materials, supplies and testing.

37. Adjustment No. (2). Repairs \$435. The pumps replaced in the test year 2000 and the

38. pump replaced in August 2001 are averaged out for the test period.

39. Adjustment No. (3). Assessment Tax \$46.00. An assessment tax ratio of 1.12% was

40. applied to the revenue in column (3) of \$4,080.

41. Adjustment No. (4). Rate Case Expense. \$44.00. This is one-third of my cost for this

42. case allocated over a three-year period.

43. Adjustment No. (5). Effect of Proposed Increase, \$8,568. The company is requesting to

44. increase its rate from \$20.00 per month to \$62.00. The increase of \$42.00 for seventeen

45. (17) customers would produce additional revenue of \$8,568.

46. Adjustment No (6). Assessment tax \$96.00. An assessment tax ratio of 1.12% was

47. applied to the proposed increase of \$8,568.

48. Adjustment No. (7). Income Taxes \$789. On revenues of \$12,648 and proposed
49. expenses of \$8,400, a composite tax rate of 19.25% was applied to taxable income of
50. \$4,248.

51. Exhibit B shows Operating Margins (Losses) for Isle of Pines. The test period used is also the
52. twelve months ending December 31, 2000. The company was charging \$12.00 per month. At
53. \$12.00 per month on seventeen (17) customers, revenue was \$2,880 for the test year. Total
54. expenses were \$1,072 producing an operating margin of 62.78%. After proforma and accounting
55. adjustments for known and measurable changes, the result is an operating loss of (3.85%). The
56. company is requesting \$35.00 per month for the five (5) full-time customers and \$25.00 per month
57. for the fifteen (15) part-time customers. This results in a proposed increase of \$3,720 shown in
58. column (5). After the proposed increase, operating margin is 43.64%.

59. The proposed adjustments are fully explained in Exhibit B-1 but I will summarize them here:

60. Adjustment No. (1). Testing fees \$305. Beginning in 2001, an independent operator
61. will perform the testing at \$69.00 per month—increasing the per book costs from \$499 to
62. \$804.00 per year.

63. Adjustment No. (2). Repairs \$1,538. This proposed adjustment amortizes cost of a cut
64. line, water testing and pump replacement over a two to three year period.

65. Adjustment No. (3). Assessment Tax \$32.00. An assessment tax ratio of 1.12% was
66. applied to the revenue in column (3) of \$2,880.

67. Adjustment No. (4). Rate Case Expense \$44.00. The cost of this rate case is \$133.00
68. amortized over a three-year period.

69. Adjustment No (5). Income Taxes \$0. After adjustments, there is an operating loss of
70. (\$111) so no income tax is calculated.

71. Adjustment No. (6). Proposed Increase of \$3,720. All customers were charged \$12 per
72. month. Under the proposed rate, part-time customers would pay \$35.00 per month and
73. part-time customers would pay \$25.00 per month. The proposed increase is computed as
74. follows:

- | | | |
|-----|---|----------------|
| 75. | Five (5) permanent customers at \$35.00 X 12 months = | \$2,100 |
| 76. | Fifteen (15) part-time customers at \$25.00 X 12 months = | <u>\$4,500</u> |
| 77. | Total proposed revenues: | \$6,600 |
| 78. | Less: per books revenues | <u>\$2,880</u> |
| 79. | Proposed Increase | <u>\$3,720</u> |
80. Adjustment No. (7), Assessment tax \$42.00. The gross receipts factor of 1.12% was
81. applied to the proposed increase of \$3,720.
82. Adjustment No (8), Income Taxes. On proposed revenues of \$6,600 and proposed
83. expenses of \$3,033 produce taxable income of \$3,567. The taxable rate of 19.25% was
84. applied for Income Tax of \$687.00.
85. In neither of these utilities are there any expenses or salaries paid to the owner/manager.
86. **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**
87. **A.** Yes, it does.

EMERALD SHORES
OPERATING MARGINS
FOR THE TEST YEAR ENDING DECEMBER 31, 2000

SEP 26 2001

MAREADY
EXHIBIT A

COLUMN NUMBER:

	(1)	(2)	(3)	(4)	(5)
	PER BOOKS	PROFORMA AND ACCOUNTING ADJUSTMENTS	ADJ. NO.	AFTER ADJUSTMENTS	EFFECT OF PROPOSED INCREASE
	\$	\$		\$	\$
OPERATING REVENUES:	4,080	0		4,080	8,568 (5) 12,648
OPERATING EXPENSES:					
Electricity	551	0		551	0 551
Testing Fees	500	(500)	(1)	0	0 0
Operator	1,800	(1,800)	(1)	0	0 0
Chemicals	186	(186)	(1)	0	0 0
Contract Operator		5,165	(1)	5,165	0 5,165
Office Supplies	150	0		150	0 150
Repairs	2,022	435	(2)	2,457	0 2,457
Repair Door	0	0		0	0 0
Assessment Taxes	0	46	(3)	46	96 (6) 142
Property Taxes	41	0		41	0 41
Management Fees	0	0		0	0 0
Rate Case Expense	0	44	(4)	44	0 44
Income Taxes	0	0		0	789 (7) 789
TOTAL OPERATING EXPENSE	5,250	3,204		8,454	885 9,339
TOTAL OPERATING INCOME	(1,170)	(3,204)		(4,374)	7,683 3,309
OPERATING MARGIN OR (LOSS):	<u>(28.68%)</u>			<u>(107.21%)</u>	<u>26.26%</u>

EMERALD SHORES
DOWD WATER SYSTEM, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS

ADJUSTMENT NUMBER (1): Testing Fees, (\$500); Operator Fees (\$1,800); and Chemical Costs, (\$186). Effective April 1, 2001, a private contractor assumed the responsibility of all testing at Stephenson's Lake and Emerald Shores at \$1,103 per month (\$13,236 per annum). The above expenses incurred by the prior operator, along with his salary, were eliminated. Based on the ratio of customers in each subdivision, 39.02% is charged to Emerald Shores, or, **\$5,165 for "Contract Operator"** in this adjustment. (See Order in Docket 2001-75-W wherein the Staff proposed, and the Commission approved, this methodology in Stephenson's Lake)

ADJUSTMENT NUMBER (2). Repairs, \$435. The per-book amount of \$2,022 in this account is comprised of Repairs to a pipe to correct leaks of \$204 and replacement of a pump for \$1,818. On February 26, 2001, the Company incurred the costs of replacing the second pump, pipe, cable and accompanying labor totaling \$2,688. The two costs of \$4,506 (\$1,818 and \$2,688) for the two years were averaged for the two year period at \$2,253. Therefore, \$2,253 average plus \$204 equals a total adjusted amount in column (3) of \$2,457 requiring an adjustment of \$435.

ADJUSTMENT NUMBER (3). Assessment Tax, \$46. The gross receipts tax rate of 1.12% was applied to the adjusted revenues of \$4,080 for a gross receipts tax of \$46. (See Order in Docket 2001-75-W wherein the Staff proposed, and the Commission approved, this methodology in Stephenson's Lake.)

ADJUSTMENT NUMBER (4). Rate Case Expense, \$44. The cost of the Accountant is \$400 for three dockets of Dowd Water Systems, Inc. or, \$133.33 per Company (Stephenson's Lake, Emerald Shores and Isle of Pines) One-third of this allocation is amortized over a three year period. at \$44.00 per year.

ADJUSTMENT NUMBER (5). Effect of the proposed increase, \$8,568. The company is requesting a flat monthly rate of \$62.00 for unlimited usage of water. The proposed rates produce revenues of \$12,648 shown in Column (5) On Adjusted Revenues of \$4,320 in column (3), the difference is an adjustment of \$8,568 in Column (4). (To Verify: Proposed rate of \$62.00 less present rate of \$20.00 = \$42.00 per month X 17 customers X 12 months = \$8,568.

ADJUSTMENT NUMBER (6): Assessment Tax, \$96.00. The Gross Receipts Tax on the proposed increase is computed at 1.12% times the proposed increase of \$8,568 equals \$96.00

ADJUSTMENT NUMBER (7): Income Taxes, \$789. On revenues of \$12,648 and Expenses of \$8,400, a composite tax rate of 19.25% was applied to the taxable income of \$4,248.

RECEIVED
MAY 26 2001
EXHIBIT B

ISLE OF PINES
OPERATING MARGINS
FOR THE TEST YEAR ENDING DECEMBER 31, 2000

COLUMN NUMBER:	(1)	(2)	(3)	(4)	(5)
	PROFORMA AND ACCOUNTING PER BOOKS	ADJ ADJUSTMENTS	AFTER ADJUSTMENTS	PROPOSED INCREASE	AFTER ADJ. PROPOSED INCREASE
	\$	\$	\$	\$	\$
OPERATING REVENUES:	2,880	0	2,880	3,720	6,600
OPERATING EXPENSES:					
Electricity	376	0	376	0	376
Testing Fees	499	305 (1)	804	0	804
Operator	0	0	0	0	0
Chemicals	0	0	0	0	0
Office Supplies	176	0	176	0	176
Repairs	0	1,538 (2)	1538	0	1538
Repair Door	0	0	0	0	0
Assessment Taxes	0	32 (3)	32	42 (7)	74
Property Taxes	21	0	21	0	21
Management Fees	0	0	0	0	0
Rate Case Expense	0	44 (4)	44	0	44
Income Taxes	0	0 (5)	0	687 (8)	687
					0
TOTAL OPERATING EXP.	1,072	1,919	2,991	729	3,720
TOTAL OPERATING INC.	1,808	(1,919)	(111)	2,991	2,880
OPERATING RATIOS:	62.78%		(3.85%)		43.64%

ISLE OF PINES
DOWD WATER SYSTEM, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS

ADJUSTMENT NUMBER (1), Testing Fees, \$305. Beginning in the year 2001, an independent contractor will perform testing this system at \$67 per month or \$804 per year.

ADJUSTMENT NUMBER (2), Repairs, \$1,538. On lines 24-34 of Mrs. Dowd's testimony, page 2, she explains the replacement of a pump (\$2,129), repairing a 1" line in the road that was dug up and cut (\$332) and testing the water at \$155 per trip for seven (7) trips by an environmental company ($7 \times \$155 = \$1,085$). This mishap happened on August 1 of this year which is after the twelve-month test year ending December 31, 2000. It is not uncommon to have a broken main in any water utility especially being dug up by another utility but it is rare to have so much testing for so many times for foreign matter in the lines wherein the utility is such a small operation, i. e., only twenty (20) customers. Usually, draining the lines and testing the water with company personnel will most often solve the problem. In view of this, then, the company proposes to amortize the pump over a two (2) year period and the other costs over a three (3) year period as follows:

Pump \$2,129 X 1/2 =	\$1,065
Repair to Water Line \$332 X 1/3 =	\$ 111
Testing \$1,085 X 1/3 =	\$ 362
TOTAL ADJUSTMENT	<u>\$1,538</u>

ADJUSTMENT NUMBER (3), Assessment Tax, \$34. The gross receipts factor of 1.12% was applied to the adjusted revenues of \$2,880 = \$34. (See Order in Docket 2001-75-W wherein the Staff proposed, and the Commission approved, this methodology in Stephenson' Lake.)

ADJUSTMENT NUMBER (4), Rate Case Expense, \$44. The Accountant's fee for three rate cases is \$400, or, \$133 per case. That amount is then amortized over a three-year period ($33.33\% \text{ times } \$133 = \44).

ADJUSTMENT NUMBER (5), Income Taxes, \$0. On revenues of \$2,880 and adjusted expenses of \$2,991, there would be no income taxes

ADJUSTMENT NUMBER (6), Effect of Proposed Increase, \$3,720. The Company is proposing a two-fold rate. Full-time residents (5) are proposed to be charged \$35.00 per month. Part-time residents (15) are proposed to be charged \$25.00 per month. After adjusted revenues of \$2,880 (Column 3) and proposed revenues of \$6,600 (Column 5), the proposed increase is \$3,720 (Column 4).

ADJUSTMENT NUMBER 7, Assessment taxes, \$42. As in adjustment #3 above, the gross receipts factor of 1.12% was applied to the proposed increase of \$3,720 for an assessment of \$42.00.

ADJUSTMENT NUMBER 8, Income Taxes, \$687. On Revenues of \$6,600 and operating expenses of \$3,033 produce taxable income of \$3,567. The taxable rate of 19.25% was applied for Income Taxes of \$687.